

Message Text

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TO SECSTATE WASHDC PRIORITY 5507
TREASURY DEPT WASHDC PRIORITY
INFO AMEMBASSY BRUSSELS
AMCONSUL FLORENCE
AMCONSUL GENOA
AMCONSUL MILAN
AMCONSUL NAPLES
AMCONSUL PALERMO
AMEMBASSY PARIS
AMCONSUL TRIESTE
AMCONSUL TURIN

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TAGS: EFIN, IT
SUBJ: ECONOMIC CONTENT OF PROPOSED PROGRAM ACCORD

REF : ROME 8942

1. /SUMMARY/. MILAN'S DAILY /24 ORE/ ON JUNE 24 PUBLISHES
SUMMARY OF WORKING DOCUMENT WHICH DC WILL REPORTEDLY CIRCULATE
AND DISCUSS WITH OTHER POLITICAL PARTIES AT THEIR JUNE 24
MEETING. DOCUMENT SUMMARIZES STATUS OF "PROGRAM ACCORD" NE-
GOATIATIONS ON KEY ISSUES. MAIN ECONOMIC SUBJECT COVERED BY
DOCUMENT ARE: A) NATURE OF ECONOMIC PROBLEM, B) PUBLIC FINANCE,
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INCLUDING BOTH EXPENDITURE AND REVENUE ASPECTS, C) ACTIVE
POLICY FOR BUSINESS SECTOR, D) PRIORITY INVESTMENT SECTORS,
E) FACTOR COSTS AND PRODUCTIVITY, AND F) PRICE POLICY.
FOLLOWING IS SUMMARY CATALOG OF SPECIFIC MEASURES PROPOSED
IN EACH OF THESE SECTORS.
/END SUMMARY/.

2. /INTRODUCTION/. INTRODUCTORY SECTION STRESSES BASIC PROBLEMS OF INFLATION, BALANCE OF PAYMENTS DEFICITS, AND LOW GROWTH RATES, AS WELL AS DANGER OF ECONOMIC DOWNTURN IN COMING MONTHS. PROGRAM CALLS FOR TRANSFER OF RESOURCES FROM CONSUMPTION TO INVESTMENT AND REDUCTION IN RATE OF INFLATION TO LEVEL COMPATIBLE WITH SOCIO-ECONOMIC EQUILIBRIUM.

3. /PUBLIC FINANCE/. REFORM AND RE-ALLOCATION OF /PUBLIC SPENDING/ IS CALLED FOR AT BOTH CENTRAL GOVERNMENT AND LOCAL GOVERNMENT LEVELS. SPECIFIC PROPOSALS AT NATIONAL LEVEL FOR 1978 ARE:

A. ACCOUNTANT GENERAL OF THE REPUBLIC WILL BE INSTRUCTED TO PREPARE 1978 APPROPRIATION BUDGET IN SUCH A WAY THAT TOTAL 1978 CASH EXPENDITURES (I.E., INCLUDING EXPENDITURES OF PREVIOUS APPROPRIATIONS) WILL NOT EXCEED OVERALL LIMIT (PRESUMABLY IMF STANDBY CEILING). RESTRICTED PARLIAMENTARY COMMITTEE OF EXPERTS WOULD BE FORMED TO EXAMINE PREVIOUSLY APPROPRIATED BUT STILL UNSPENT BUDGET ITEMS AND TO PROPOSE CUTS OR RE-ALLOCATIONS, GIVING PREFERENCE TO INVESTMENT.

B. CONSOLIDATED BUDGET FOR ENTIRE PUBLIC ADMINISTRATION WOULD BE PREPARED, WITH BOTH ECONOMIC AND FUNCTIONAL BREAKDOWN FOR CURRENT YEAR AND FOR AT LEAST SUBSEQUENT TWO YEARS.

C. SINGLE RESPONSIBLE BODY IS TO BE DESIGNATED TO EXAMINE,
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AT TIME OF BUDGET PRESENTATION, FINANCING PROGRAM FOR ENTIRE PUBLIC SECTOR SO AS TO RECONCILE EXPENDITURE LEVELS WITH AVAILABLE FINANCING.

D. OVER MEDIUM-TERM, LOCAL GOVERNMENT FINANCE IS TO BE BROUGHT BACK INTO EQUILIBRIUM THROUGH MEASURES WHICH ARE COUNTERPART TO RECENT CONSOLIDATION OF MUNICIPAL GOVERNMENT DEBT.

4. REFORM OF /LOCAL GOVERNMENT FINANCE/ WOULD BE EFFECTED BY: A) RESTITUTION OF LIMITED TAXING AUTHORITY TO LOCAL GOVERNMENTS, INCLUDING INTRODUCTION OF LOCAL TAX ON VALUE OF REAL ESTATE HOUSING, WHICH WOULD SUBSTITUTE FOR EXISTING LOCAL TAX ON INCREASES IN REAL ESTATE VALUES (INVIN) AND LOCAL TAX ON INCOME (ILOR), B) POLICY OF PUBLIC SERVICE RATES AIMED AT AVOIDING INCREASED DEFICITS AND UNDESIRABLE REDISTRIBUTION OF INCOME. HOWEVER, PUBLIC TRANSPORT FARES SHOULD NOT BE INCREASED TO EXTENT THAT URBAN CONGESTION WOULD RESULT BECAUSE OF GROWTH OF PRIVATE TRANSPORT. SPECIFIC COEFFICIENT FOR MINIMUM COVERAGE OF COSTS SHOULD BE ESTABLISHED IN FIXING PUBLIC TARIFF RATES, C) LIMITATION OF TOTAL LOCAL GOVERNMENT INVESTMENT EXPENDITURES, POSSIBLY THROUGH FIXED COEFFICIENT WHICH

COULD BE MODIFIED ONLY ON BASIS OF INCREASED TAX OR PUBLIC
SERVICE REVENUES.

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5. CHANGES ARE ALSO CALLED FOR IN /SOCIAL INSURANCE COSTS/.
FOR 1977, SOCIAL SECURITY DEFICIT WOULD BE REDUCED BY
UNIFYING METHOD OF COLLECTION OF ALL SOCIAL INSURANCE
CONTRIBUTIONS, GRADUALLY INCREASING CONTRIBUTIONS IN THOSE
PENSION SYSTEMS WHICH ARE IN LARGE DEFICIT, AND RE-EXAMINING
DISABILITY COMPENSATION SYSTEM. HEALTH INSURANCE DEFICITS
WOULD BE REDUCED BY INTRODUCTION OF MINIMUM CHARGE FOR MEDICINES
AND BY INTRODUCING STANDARD COMPENSATION LEVELS FOR DIFFERENT
TYPES OF ILLNESS.

6. GROWTH OF /PERSONNEL COSTS/ OF PUBLIC ADMINISTRATION WOULD
BE LIMITED BY TEMPORARY FREEZE ON HIRING AT BOTH CENTRAL GOVERN-
MENT AND LOCAL GOVERNMENT LEVELS, PENDING REVIEW OF THE ORGANI-
ZATION AND STANDARDS OF SERVICE IN THE PUBLIC ADMINISTRATION.
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ALSO, PROBLEM OF THE "WAGE JUNGLE" (WAGE AND BENEFIT ANOMALIES) WITHIN PUBLIC ADMINISTRATION MUST BE DEALT WITH AND UNNECESSARY PUBLIC AGENCIES ABOLISHED.

6. CONCERNING /TAX REVENUES/, DOCUMENT PROPOSES THAT REVENUE INCREASES IN 1978 SHOULD BE AT FASTER RATE THAN GDP, I.E., THERE SHOULD BE INCREASE IN REAL FISCAL BURDEN. NEW TAXES ARE EXCLUDED FOR 1977, BUT SERIES OF TAX PROPOSALS ARE MADE FOR 1978 AS FOLLOWS: A) PERSONAL INCOME TAX RATES SCHEDULE WOULD BE REVISED, B) LOCAL INCOME TAX (ILOR) WOULD BE COLLECTED THROUGH SELF-ASSESSMENT AND SIMULTANEOUS PAYMENT PROCEDURE, C) DOUBLE TAXATION OF CORPORATE INCOME AND CORPORATE DIVIDENDS WOULD BE ELIMINATED AND TAX TREATMENT OF DIVIDENDS WOULD BE PUT ON A PAR WITH THAT OF INTEREST INCOME, D) EXISTING TAX BENEFITS UNDER VALUE-ADDED TAX (IVA) WOULD BE REVISED TO DISCOURAGE NON-ESSENTIAL CONSUMPTION, E) INVESTMENT TAX CREDIT WOULD BE CREATED TO ENCOURAGE REINVESTMENT OF PROFITS IN FIXED CAPITAL, ESPECIALLY IN MEZZOGIORNO, AND F) SYSTEM WOULD GRADUALLY BE INTRODUCED WHEREBY SOCIAL INSURANCE CONTRIBUTIONS WOULD BE PAID IN TOGETHER WITH TAX WITHHOLDINGS. THIS WOULD BE MADE A PART OF MULTI-YEAR PLAN TO COMBAT EVASION OF TAXES AND SOCIAL CONTRIBUTIONS. RESULT OF TAX AND EXPENDITURE MEASURES, AS WELL AS EFFORTS TO REDUCE TAX EVASION, WOULD REPORTEDLY REDUCE 1978 BUDGET DEFICIT BY 5,000 BILLION LIRE, WHILE PERMITTING INCREASED INVESTMENT AND CREATION OF JOBS.

7. /ACTIVE POLICY FOR BUSINESS SECTOR/. DOCUMENT IDENTIFIES TWO TYPES OF FINANCIAL PROBLEMS IN BUSINESS SECTOR. THE FIRST IS NEED TO CONVERT PART OF SHORT-TERM BUSINESS DEBT INTO MEDIUM-TERM DEBT. THIS COULD BE ACHIEVED ON BASIS OF VOLUNTARY AGREEMENTS (PRESUMABLY WITH COMMERCIAL BANKS), WHEREBY BANK DEBT WOULD BE REPLACED BY MEDIUM-TERM DEBT CERTIFICATES. CORRESPONDING REVISION OF EXISTING PORTFOLIO INVESTMENT REQUIREMENTS

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OF BANKS WOULD BE MADE TO ACCOMMODATE THIS CHANGE. SECOND FINANCIAL PROBLEM IS NEED TO PROVIDE BUSINESS WITH NEW RISK CAPITAL. THIS COULD BE ACHIEVED BY POLICIES FAVORING REINVESTMENT OF EARNINGS, ELIMINATING DOUBLE TAXATION OF CORPORATE INCOME, PROVIDING TAX TREATMENT FOR DIVIDENDS EQUAL TO THAT APPLICABLE TO OTHER NON-LABOR INCOME, AND INTRODUCING NEW SAVINGS INSTRUMENTS TO EXPAND STOCK OWNERSHIP. ALSO CLIMATE OF STABILITY FOR BUSINESS SHOULD BE CREATED WHICH WOULD STIMULATE ENTREPRENEURSHIP, INNOVATION, AND INVESTMENT THROUGH MEANS OF INDUSTRIAL RECONSTRUCTION LAW. THIS WOULD CONTAIN CRITERIA FOR DEVELOPMENT OF HIGH PRIORITY SECTORAL PLANS (E.G., CHEMICALS, TEXTILES, STEEL, AND CONSTRUCTION). IN AREA OF STATE

HOLDING COMPANIES, REFORMS WOULD BE ADOPTED TO GUARANTEE THAT STATE HOLDING COMPANIES ARE MANAGED UNDER SAME CONDITIONS AS FIRMS IN PRIVATE SECTOR, SUBJECT TO THOSE SPECIAL REQUIREMENTS WHICH MAY BE APPROPRIATE TO STATE-OWNED INDUSTRIES. TREASURY IS ASKED TO BE PROMPT IN TRANSFERRING TO STATE HOLDING COMPANIES CAPITAL ENDOWMENT FUNDS APPROPRIATED BY PARLIAMENT. DOCUMENT PROPOSES THAT MINORITY HOLDINGS OF THE STATE IN SUCH FIRMS AS MONTEDISON BE RE-GROUPED UNDER SINGLE PUBLICLY OWNED FINANCIAL HOLDING COMPANY. FINALLY, 1978 INVESTMENT PLANS OF STATE HOLDING COMPANIES ARE TO BE TRANSMITTED TO APPROPRIATE PARLIAMENTARY COMMITTEES NO LATER THAN SEPTEMBER 30, 1977.

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8. /PRIORITY INVESTMENT SECTORS/. /24 ORE/ ARTICLE ONLY MAKES SPECIFIC REFERENCE TO HOUSING SECTOR, ALTHOUGH OTHER SECTORS (E.G., AGRICULTURE, TRANSPORT AND ENERGY) ARE EVIDENTLY DEALT WITH IN PROGRAM ACCORD DOCUMENT. FOR HOUSING, ADVERSE FACTORS SUCH AS CURRENT RENT FREEZE AND UNCERTAINTY ABOUT OUTCOME OF PROPOSED FAIR RENT LAW MUST BE REMOVED. DOCUMENT PROPOSES THAT ALL PRIVATE HOUSING CONSTRUCTION AFTER JANUARY 1978 WHICH DOES NOT RECEIVE ANY STATE AIDE BE EXCLUDED FROM APPLICATION

OF NEW FAIR RENT LAW FOR AT LEAST FIVE YEARS AND THAT IT BE EXCLUDED FOR FIVE YEARS FROM PROPOSED NEW LOCAL TAX ON REAL ESTATE HOUSING.

9. /FACTOR COSTS AND PRODUCTIVITY/. DOCUMENT CITES NEED FOR MEASURES TO REDUCE COST OF MONEY, INCREASE PRODUCTIVITY, UNCLASSIFIED

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AND DIMINISH COST OF LABOR. REDUCTION IN COST OF MONEY WOULD BE LINKED TO SUCCESS IN REDUCING INFLATION AND WOULD BE ACHIEVED BY AVOIDING MEASURES WHICH FAVOR FINANCING OF PUBLIC DEFICIT AS AGAINST FINANCING OF PRIVATE SECTOR AND BY STRENGTHENING COMPETITION IN MONETARY AND CREDIT SECTORS. INCREASE IN /PRODUCTIVITY/ IS SEEN TO BE OF PARTICULAR IMPORTANCE, AND GOVERNMENT SHOULD SEEK COOPERATION OF BUSINESS AND LABOR IN RESOLVING PROBLEMS CONCERNING HOURS OF WORK, USE OF SHIFTS, ABSENTEEISM AND LABOR MOBILITY.

10. REGARDING /COST OF LABOR/, DOCUMENT STATES THAT, IF IN SECOND HALF OF 1977 COST OF LIVING WAGE INDEXATION (SCALA MOBILE) ADJUSTMENTS THREATEN TO EXCEED TARGETS, EXTRA COST TO BUSINESS SHOULD BE ASSUMED BY THE TREASURY ("FISCALIZATION"). DOCUMENT DOES NOT FORESEE THE NEED FOR TAX INCREASES IN 1977 TO COVER THIS COST, BUT IN 1978 ANY SUCH FISCALIZATION OPERATIONS WOULD BE FINANCED BY INCREASES IN DIRECT TAXATION.

11. /PRICE POLICY/. PROGRAM PRECLUDES RESORT TO PRICE FREEZE, PROPOSES TO LIMIT TO THE MAXIMUM POSSIBLE THE USE OF ADMINISTERED PRICES BUT FAVORS WIDER ADOPTION OF "SOCIAL PRICES" FOR WHICH INTERMINISTERIAL PRICE COMMITTEE (CIPE) MUST BE PROVIDED WITH ADEQUATE MANAGEMENT TOOLS.

12. /COMMENT/. DETAILED INFORMATION ON ECONOMIC SUBSTANCE OF PROPOSED PROGRAM ACCORD HAS BEEN HARD TO COME BY IN RECENT WEEKS. INFORMATION CONTAINED IN /24 ORE/ ARTICLE SUGGESTS THAT POLITICAL PARTIES HAVE BEEN ABLE TO NAIL DOWN SOME FAIRLY SPECIFIC AGREEMENTS IN SOME AREAS WHICH GO BEYOND EARLIER VAGUE GENERALITIES (REFTEL). ON TWO CRITICAL ISSUES OF BUDGET DEFICIT AND LABOR COSTS, DOCUMENT SHOWS BROADER AGREEMENT AND THEREFORE, GREATER DEGREE OF SPECIFICITY WITH REGARD TO BUDGET DEFICIT (BOTH EXPENDITURE AND REVENUE ASPECTS) THAN IT DOES WITH UNCLASSIFIED

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REGARD TO LABOR COSTS. NOTABLY MISSING IS ANY REFERENCE TO FUNDAMENTAL REFORM OF WAGE INDEXATION (SCALA MOBILE) MECHANISM WHICH LABOR CONFEDERATIONS CONTINUE TO OPPOSE ADAMAN-

TLY. ALSO, DOCUMENT SEEMS TO ADOPT VIEW OF MINFIN PANDOLFI
THAT GROWTH OF TAX REVENUE IN 1977 OVER EARLIER FORECASTS WILL
BE SUFFICIENT TO PROVIDE ALL REVENUE WHICH MAY BE NEEDED TO
COVER FISCALIZATION OF SOCIAL COSTS, IF REQUIRED TO MEET
IMF LABOR COST TARGETS. RELATIVE WEAKNESS OF PROGRAM ON LABOR
COST SIDE IS NOT SURPRISING, GIVEN CONTINUED PRESSURE BY
LABOR UNIONS ON POLITICAL PARTIES TO ACCEPT UNION VIEW THAT
LABOR COST ISSUE AND PARTICULARLY SCALA MOBILE ARE NOW "CLOSED"
QUESTIONS.GARDNER

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